Sent: Tuesday, December 07, 2010 10:59 PM
To: Steve Mitchell
Subject:

George,

Unfortunately our proposal with the DOE did not fly. They acknowledge that they should be increasing the loan to provide additional capital or asking us to contribute to a fully funded plan in conjunction with the DOE loan being reduced to create incentive for new investment. However, they also acknowledge that politically they have no will or ability to get this done. The DOE really thinks politically before it thinks economically and in a conversation today with [redacted] he confirmed this (he knows Jonathan Silver – head of the DOE loan program).

After the DOE summarily shot down our proposal, we politely moved the conversation toward how we should use the time to start discussing the bankruptcy process since all of the relevant parties were in the room (by relevant I mean – the DOE as senior secured lender for fab 2; Argonaut as the majority holder of the convertible debt which is the senior secured loan relating to Fab 1, the intellectual property and all company assets excluding Fab 2 and Solyndra management). To me it was clear that the DOE folks were somewhat caught off guard that we weren't going to bail out the company.

We broke from this meeting and [redacted] the lead decision maker for the DOE at this week's negotiations (Jonathan Silver did not attend the meetings), grabbed me and wanted to discuss one final proposal from the DOE. She suggested that we (current investors) commit to fund $75 million now and in exchange the DOE would fund the remaining $95 million (all of the variables described in the transaction last night would apply lower in the capital stack). Under her new proposal, in a downside situation – i.e. a liquidation scenario – our $75 million would receive 100% of the liquidation proceeds until we were made whole and her $95 million would stand behind us. However, in an upside situation where the company can amortize the loan out of cash flow the DOE's capital would flip up to the senior position and our $75 million would be subordinated to the DOE's $95 million. She acknowledged that this still required us to fund into an unfunded plan, however, in May/June timeframe if we did not feel good about the business then we could choose to liquidate at that time and in her mind we should be made whole on the entire amount of the $75 million (she is probably within reason on this statement as the land and building should fetch something around that number – it is a specialized building so access to the right buyer will drive value higher or lack of the right buyer could lead it lower). I pushed [redacted] if the DOE would also haircut a portion of its loan and she again reiterated that they could not (please recall the currently funded portion of the DOE loan is to be discounted to app. $250 million and then accretes back to $440 million over a 15 year term - so at some level they are discounting the loan or foregoing true interest for the next 15 years). I agreed to discuss it internally and with Madrone as well.

We had a great deal of discussion regarding this proposal today and I struggle to recommend making the additional investment. One open question was where in the capital stack would the additional $75 million come in (i.e. the second $75 million tranche of the $150 million total). We asked for clarification stating our assumption was that if it had to be provided by insiders than it should be pari passu with the first $75 million as the company was not significantly de-risked by the time the capital was needed to attract outside investors. [redacted] was adamant that this was unacceptable and the second $75 million would be pari passu with the $440 million or junior to the $95 million at best. She seemed open to leaving the question of the second $75 million undetermined as well and dealing with it at the time the capital was actually needed [redacted] (Solyndra general counsel) and [redacted] both acknowledged that the pressure on the DOE, for a variety of reasons, would be much greater in May/June when their loan was fully funded, they are behind our $75 million and the company is progressing on its plan and that we would have more leverage at that time).

The most compelling part of the DOE proposal is it arguably gives us a free look into May/June timeframe to see if the company has executed on its plan. The most significant thing we will be able to tell at that time period is whether the company has been successful in its channel and market development strategies (the current thinking is that this effort is on the right track and there are good indicators of better traction every day). We will not, by this time period, have very good clarity into Solyndra's ability to pull costs out of the process as Q1 will have COGS as we transition over from Fab 1 to Fab 2. We won't really know about costs savings until Q3 and Q4.

I bring these items up as this request does reduce our risk in the downside scenario (versus pari passu or behind the DOE loan), however, it does require us to fund into an unfunded business plan. My primary concern is that at the time we will need to make a funding decision on the next $75 million prior to a time in which the company will be able to attract 3rd party capital and we will be forced to make a decision to fund additional capital or liquidate the company at a time when it will be difficult to have real conviction around the ultimate success of the business. To say this another way, it is somewhat implicit in funding the senior secured $75 million today that we will fund the additional $75 million (and we won't know dramatically more at the time we are forced to make that decision). Madrone is inclined to participate in the DOE proposal as they value the optionality that the senior secured position provides, however, they don't really have an appetite to provide a portion of the next $75 million (i.e. if Solyndra cannot raise the capital from outsider investors in the next round than we would liquidate the business (regardless of how well the company has progressed)). This is a simplification of Madrone's position but I wanted to note that they are leaning more positively than I am to fund the first $75 million, but they don't share my fear that we get stuck in a very difficult decision regarding the following $75 million (the company can either raise outside capital or it cannot).

I also question the upside opportunity on an additional $150 million equity investment. The current plan projects a 2014 Ebitda of [redacted] Current solar companies trade at approximately 8X Ebitda – this would give Solyndra an enterprise value of app. [redacted] and an equity value of [redacted] (this assumes convertible debt is converted and the $150 of new capital is not viewed as debt (although it would amortize but would also own the lion's share of the equity). However, Solyndra's historical cap-ex required per MW of production capacity would not justify expending capital to increase production capacity (the company is exploring technologies it could license that would give its cylindrical form factor dramatic advantages in power production but these are 2 to 4 years out as best and are too speculative to underwrite). As a result, unless a technology or manufacturing break through occurs (line speed increase, dramatic panel power improvement beyond the projected improvement in the current business plan) the company will most likely not garner a growth multiple of 8X and more likely end up with a 5X to 6X valuation. This provides an enterprise value range of [redacted] in equity value. Put another way, the company is not creating equity value until it reaches approximately [redacted] in Ebitda.

These valuations assume the company does not require additional capital and it achieves the full potential of the plan. Obviously the company has a history of missing its plans which is a primary reason for our concern (this is somewhat abated by the plan's author – Brian Harrison - the new CEO). However, a good portion of the prior misses were poor assumptions on outside factors (pricing, sales costs) that Brian doesn't have better clarity on than prior management. This plan is far more conservative on line speed (no increases in the plan) and panel pricing but it does underwrite to a continued increase in panel power which is a variable we have missed on in the past.

I realize the above is a bit all over the map. To restate my point: I do believe we (along with Madrone and smaller current investors) can fund the first $75 million and ultimately recover that capital if we don't like the company's progress. However, I think it will be incredibly tough to have the conviction in any situation but a disaster scenario to pull the rip cord and liquidate the company (not to mention it won't be our decision alone to make). For this reason I do not feel comfortable recommending moving forward.

I have follow up discussions with Goldman Sachs (they are reaching back out to financial investors to test their appetite for this structure), the DOE and management prior to our Argonaut review meeting tmrw afternoon. I also have a board call after our Argonaut meeting to update the board and gauge other investor's interest in the

DOE proposal. I will continue to update you if any additional information arises.

[redacted] is in the thick of getting his head around the NOL situation (in both a bankruptcy and non-bankruptcy setting) and I continue to ask strawman scenarios that make no sense (I'm clearly no tax guy). We hope to have some solid sense of the opportunity by Thursday's meeting.

Please let me know if you have any additional questions, comments or suggestions.

Steve